

SOUTH AFRICA

Government faces a revenue gap of R48.2bn in 2018. This was revealed by South Africa's Finance Minister Malusi Gigaba in his maiden Budget speech on Wednesday. To address this shortfall, Treasury plans to hike value-added tax (VAT), for the first time since 1993 as well as place a greater burden of tax on wealthy South Africa, whilst protecting the most vulnerable. Although, tax revenue collections for 2017/18 are expected to marginally outperform projections set out in the 2017 Medium Term Budget Policy Statement (MTBPS), Gigaba in his speech argued that acting now will improve the economic outlook and increase space for investment growth.

Treasury in its Budget Review argues that the decision to increase the VAT rate by one percentage point was taken as it was estimated "to have the least detrimental effects on economic growth and employment over the medium term".

Tax Proposals

The tax proposals will generate an additional R36bn in tax revenue for 2018/19. The largest contributor will be the R22.9 billion from the one percentage point increase in VAT and R6.8 billion from lower-than-inflation increases to the personal income tax rebates and brackets.

The main proposals are:

- **VAT rate to increase from 14% to 15%.**
- Zero-rating of basic food items will limit impact on poorest households.
- Brown bread and whole wheat brown bread will be zero-rated. Products such as rye or low GI bread will not be zero-rated.
- Personal income tax rebates & brackets to increase below inflation, see table below.
- No adjustments to the top four income tax brackets, and below inflation adjustments to the bottom three brackets.
- **Ad-valorem excise duty rate on luxury goods to increase from 7% to 9%.**
- **Effective 1 April 2018, the maximum *ad valorem* excise duty for motor vehicles will increase from 25% to 30%.**
- Classification of cellular telephones will be updated to include "smartphones" to ensure they attract *ad valorem* excise duties.
- Government will consult on a proposal to replace the flat rate for cellphones with a progressive rate structure based on the value of the phone.
- From March 1 a higher estate duty tax rate of 25% for estates greater than R30mn will be introduced. To limit the staggering of donations to avoid the higher estate duty rate, any donations above R30mn in one tax year will also be taxed at 25%.
- 52c/l increase in fuel levies: – comprising 22c/l for general fuel levy & 30c/l in Road Accident Fund levy.
- **Alcohol & tobacco excise duties to increase between 6 & 10%.**
- Carbon Tax Bill expected to be enacted before the end of 2018. Tax to be implemented from 1 January 2019.
- Plastic bag levy to be increased by 50% to 12 cents per bag, effective 1 April 2018.
- From 1 April, environmental levy on incandescent light bulbs will increase from R6 to R8 to incentivise more energy-efficient behaviour.
- Vehicle emissions tax will be increased to R110 for every gram above 120 gCO₂/km for passenger vehicles and R150 for every gram above 175 gCO₂/km for double cab vehicles, effective 1 April 2018.
- Government will publish a discussion document outlining design options for the proposed acid mine drainage levy.

- Health promotion levy, which taxes sugary beverages, will be implemented from 1 April 2018.
- Over the next three years, below-inflation increases in medical tax credits will help government to fund the rollout of national health insurance. Government will increase the medical tax credit from R303 to R310 per month for the first two beneficiaries, and from R204 to R209 per month for the remaining beneficiaries. The medical tax credit will be reviewed after the Davis Tax Committee presents its recommendations.

Table 4.5 Personal income tax rates and bracket adjustments

2017/18		2018/19	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R189 880	18% of each R1	R0 - R195 850	18% of each R1
R189 881 - R296 540	R34 178 + 26% of the amount above R189 880	R195 851 - R305 850	R35 253 + 26% of the amount above R195 850
R296 541 - R410 460	R61 910 + 31% of the amount above R296 540	R305 851 - R423 300	R63 853 + 31% of the amount above R305 850
R410 461 - R555 600	R97 225 + 36% of the amount above R410 460	R423 301 - R555 600	R100 263 + 36% of the amount above R423 300
R555 601 - R708 310	R149 475 + 39% of the amount above R555 600	R555 601 - R708 310	R147 891 + 39% of the amount above R555 600
R708 311 - R1 500 000	R209 032 + 41% of the amount above R708 310	R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310
R1 500 001 and above	R533 625 + 45% of the amount above R1 500 000	R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000
Rebates		Rebates	
Primary	R13 635	Primary	R14 067
Secondary	R7 479	Secondary	R7 713
Tertiary	R2 493	Tertiary	R2 574
Tax threshold		Tax threshold	
Below age 65	R75 750	Below age 65	R78 150
Age 65 and over	R117 300	Age 65 and over	R121 000
Age 75 and over	R131 150	Age 75 and over	R135 300

Source: National Treasury

Treasury's Budget Review also highlights that it has taken years to build the foundation of trust that underpins South Africa's tax morality. But such trust is fast eroding; to combat this the president will establish a commission of inquiry into the functioning and governance of the South African Revenue Service (SARS). Steps will also be taken to improve the governance and accountability of SARS, and to strengthen the operational independence of the Tax Ombudsman.